

Message Text

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PAGE 01 BONN 00734 01 OF 02 131839Z
ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 CIAE-00 DODE-00 PM-05 H-01
INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02
SS-15 USIA-06 AID-05 COME-00 EB-08 FRB-03 TRSE-00
XMB-02 OPIC-03 LAB-04 SIL-01 OMB-01 HEW-04 /103 W
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R 131820Z JAN 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 4782
INFO AMCONSUL BREMEN
AMCONSUL DUSSELDORF
AMCONSUL HAMBURG
AMCONSUL FRANKFURT
AMCONSUL MUNICH
AMCONSUL STUTTGART
USMISSION USBERLIN
AMEMBASSY PARIS
AMEMBASSY LONDON
AMEMBASSY ROME
AMEMBASSY THE HAGUE
AMEMBASSY VIENNA
AMEMBASSY STOCKHOLM
AMEMBASSY LUXEMBOURG
AMEMBASSY COPENHAGEN
AMEMBASSY LISBON
AMEMBASSY OSLO
AMEMBASSY MADRID
USMISSION GENEVA

LIMITED OFFICIAL USE SECTION 01 OF 02 BONN 00734

USEEC ALSO FOR EMBASSY

E.O. 11652: N/A
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PAGE 02 BONN 00734 01 OF 02 131839Z

SUBJECT: PUBLIC DEBATE ON FINANCIAL DIFFICULTIES OF OLD
AGE INSURANCE REVIVED.

REF: (A) BONN 05806 (1977); (B) BONN 02609 (1977);
(C) BONN 01653 (1977); (D) BONN 13960 (1977)

SUMMARY: RECENT NEWS LEAKS THAT THE OLD AGE INSURANCE

SYSTEM WILL FACE A DEFICIT OF OVER DM 20 BILLION BY 1981 IN SPITE OF CORRECTIVE MEASURES ADOPTED ON JULY 1, 1977 (REF A), HAVE REVIVED PUBLIC DEBATE ON THE FINANCIAL STABILITY OF OLD AGE PENSIONS. THESE LEAKS MAY FORCE THE GOVERNMENT TO ANNOUNCE NEW FUNDING PROPOSALS EARLIER THAN ORIGINALLY PLANNED. THE CONTENT OF THE PROPOSALS WILL HAVE POLITICAL IMPACT AND COULD PROVIDE CAMPAIGN AMMUNITION FOR THE CDU/CSU OPPOSITION IN UPCOMING LANDTAG ELECTIONS. THE PROPOSALS MAY ALSO REKINDLE LATENT DIFFERENCES AMONG THE SPD/FDP COALITION PARTNERS OVER THE MOST APPROPRIATE MEASURES TO TAKE.

END SUMMARY.

1. THE ISSUE OF FUNDING FOR THE OLD AGE INSURANCE SYSTEM WAS IGNITED AGAIN WHEN INFORMATION WAS LEAKED TO THE PRESS THAT THE SYSTEM WILL FACE A DEFICIT OF DM 20 BILLION OR MORE BY 1981. A REPORT BY THE ASSOCIATION OF OLD AGE PENSION INSURANCE SYSTEMS (VERBAND DER RENTENVERSICHERUNGSTRAEGER) IN THE FALL OF 1977 PREDICTED THAT RESERVES WOULD BE EXHAUSTED BY 1981 IF MEASURES WERE NOT TAKEN TO RESTORE THE FINANCIAL VIABILITY OF THE SYSTEM. THE SPECTER OF A LARGE DEFICIT BY THAT YEAR INCREASES PUBLIC UNCERTAINTY OVER THE FRG CAPACITY TO FIND A VIABLE SOLUTION. SINCE PART OF THE RESERVE FUND IS INVESTED IN LONG-TERM SECURITIES (REF B), PROBLEMS OF LIQUIDITY COULD ARISE AS EARLY AS LIMITED OFFICIAL USE

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PAGE 03 BONN 00734 01 OF 02 131839Z

THE FALL OF 1979 UNLESS REMEDIES ARE TAKEN THIS YEAR.

2. THE GOVERNMENT SEES ITSELF CONFRONTED WITH THE FINANCIAL DILEMMA OF OLD AGE INSURANCE FOR THE THIRD TIME IN THE PRESENT LEGISLATIVE PERIOD. THE ECONOMIC PROJECTIONS ON WHICH THE GOVERNMENT BASED ITS 1977 REFORMS TO RESTORE THE FINANCIAL VIABILITY OF THE SYSTEM (REF B AND C) TURNED OUT TO BE OVERLY OPTIMISTIC. REALIZING THE NEED FOR ADDITIONAL ASSISTANCE, THE GOVERNMENT, IN THE FALL OF 1977, ADOPTED ADMINISTRATIVE AND BUDGETARY MEASURES TO HELP THE SYSTEM MEET ITS FINANCIAL OBLIGATIONS. THESE INCLUDED:

A) THE REPAYMENT OF GOVERNMENT DEBTS AMOUNTING TO DM 5 BILLION TO THE OLD AGE INSURANCE SYSTEM;

B) THE ASSUMPTION BY THE GOVERNMENT BEGINNING IN 1979 OF CHILD ALLOWANCES WHICH PENSIONERS RECEIVE. SUCH ALLOWANCES HAVE BEEN PAID BY THE OLD AGE INSURANCE SYSTEM AND THE TRANSFER OF SUCH PAYMENTS TO REGULAR GOVERNMENT BUDGETARY RESOURCES WOULD SAVE THE OLD AGE INSURANCE AN ESTIMATED DM 450 TO 500 MILLION PER YEAR;

C) THE TRANSFER OF PAYMENTS OF OLD AGE INSURANCE CONTRIBUTIONS FOR UNEMPLOYED WORKERS FROM THE UNEMPLOYMENT INSURANCE SYSTEM SIX MONTHS EARLIER THAN ORIGINALLY SCHEDULED, I.E., BEGINNING ON JULY 1, 1978 INSTEAD OF JANUARY 1, 1979.

3. ON JANUARY 12, THE CHANCELLOR MET WITH ECONOMICS MINISTER GRAF LAMBSDORFF (FDP), FINANCE MINISTER APEL (SPD), AND LABOR MINISTER EHRENBURG (SPD) TO DISCUSS

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PAGE 01 BONN 00734 02 OF 02 131840Z
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LIMITED OFFICIAL USE SECTION 02 OF 02 BONN 00734

THE RAMIFICATIONS OF THE SITUATION. ORIGINALLY, THE GOVERNMENT HAD INTENDED TO PROPOSE A FINANCIAL CON-LIMITED OFFICIAL USE

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PAGE 02 BONN 00734 02 OF 02 131840Z

SOLIDATION PROGRAM FOR OLD AGE INSURANCE IN MARCH, BUT LABOR MINISTER EHRENBERG IS UNDER PRESSURE TO PRESENT THE PROPOSALS EARLIER, PERHAPS FOLLOWING THE GOVERNMENT'S ANNUAL ECONOMIC REPORT EARLY IN FEBRUARY.

4. ATTEMPTS TO FIND SOLUTIONS TO THE FUNDING PROBLEM EARLIER IN 1977 (REF C) REVEALED WIDE DIFFERENCES IN VIEW BETWEEN THE COALITION PARTIES AND BUNDESTAG FACTIONS. THESE DIFFERENCES HAD NOT BEEN SETTLED, BUT ONLY POSTPONED IN THE HOPE THAT AN ECONOMIC UPSWING WOULD LEAD TO THE FINANCIAL RECOVERY OF THE INSURANCE SYSTEM. SPD BUNDESTAG FACTION CHAIRMAN HERBERT WEHNER WILL INVITE LEADING REPRESENTATIVES AND EXPERTS OF THE SPD/FDP COALITION FOR A MEETING LATER IN JANUARY TO CLARIFY POINTS OF VIEW AND SEEK A CONSENSUS.

5. SPECULATION ON THE TYPE OF CORRECTIVE MEASURES TO BE PROPOSED HAS GENERATED ANXIETY AMONG PENSIONERS AND WORKERS. THE CDU/CSU OPPOSITION SO FAR HAS BEEN RATHER QUIET, BUT THERE IS EVERY REASON TO THINK THAT ANY NEW GOVERNMENT PROGRAM WILL BECOME A CAMPAIGN ISSUE IN THE FORTHCOMING LANDTAG ELECTIONS. WHATEVER FORM THE NEW PROPOSALS TAKE, THEY WILL ADVERSELY AFFECT THE INCOME OF PENSIONERS AND/OR WORKERS.

6. A MODERATE NOTE WAS STRUCK BY DGB VICE PRESIDENT GERD MUHR, DGB EXPERT ON SOCIAL SECURITY, WHO WARNED AGAINST OVER-DRAMATIZING THE SITUATION. IN HIS VIEW, A FINANCIAL GAP OF ABOUT DM 20 BILLION BY 1981 IS COMPARATIVELY SMALL WHEN COMPARED WITH AN EXPECTED VOLUME OF EXPENDITURES FOR OLD AGE PENSIONS TOTALING DM 700 BILLION DURING THE NEXT FOUR YEARS. HE THINKS THAT THE PROBLEM COULD BE SOLVED BY SOME MINOR ADJUST-LIMITED OFFICIAL USE

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PAGE 03 BONN 00734 02 OF 02 131840Z

MENTS WHILE A POSSIBLE INCREASE IN SOCIAL SECURITY TAXES SHOULD BE RESERVED FOR THE NEXT "MAJOR REFORM" OF THE OLD AGE INSURANCE SYSTEM DUE IN 1982 (REF D).

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